KEYNOTE ADDRESS TO THE NARUC SUMMER COMMITTEE MEETINGS

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Introduction President Rowe, Chairman Kennard, Commissioner Holmes, Distinguished Commissioners, Ladies and Gentlemen:

Thank you for inviting me to be with you today. As a Texas PUC alumnus who spent an awful lot of time at these NARUC meetings, I'm cognizant and deeply appreciative of the importance of the work you're tackling here over these next several days, and I'm honored to be part of your program.

I am also honored to share the stage this morning with Chairman Kennard. On his watch at the FCC, I know he and his colleagues have had to make some unusually tough, significant competitive decisions affecting our country's long-distance and local service telecommunications markets. In particular, I note one made in recent days involving the entry into long-distance service of a little Regional Bell Operating Company (RBOC) headquartered in Texas whose local service I used to regulate. My hat goes off to you, Mr. Chairman.

Both Chairman Kennard at the FCC and you at the state commissions are at the vanguard of reshaping the contours of the much-heralded New Economy. This increasingly digital economy is now having immediate cross-sectoral impacts. And because I come to you today wearing my energy "hat", let me first address what effect the Digital Revolution in communications is having on the energy sector. My remarks this morning will touch on three themes: Urgency, Uniformity, and Opportunity.

Urgency Prompted by the Digital Economy:
Growth and Power Implications By "urgency", I refer to the accelerated growth in demand in use of the communications infrastructure and the concomitant demand growth in power, in both absolute terms and quality. Bluntly put, the digital economy is placing great strains on our power supply.

Telecommunications traffic is set to grow in the coming years. You see work crews in cities like Los Angeles and Atlanta tearing up streets to lay fiber optic cable. These cables can carry the equivalent of 25 million calls on one wire. I say "equivalent" because it's not all voice traffic on these lines, it's data. Businesses want fast internet connections. People want to be able to sit in airport terminals and read their emails. By 2002, it is projected to be 64 percent; and much of that will be e-commerce.

All this activity is having implications for electricity usage that we are just beginning to understand. One thing we do know is that Silicon Valley, for example, requires vast stores of electricity to power computer-intensive offices, so-called clean rooms for chip production and "server farms" in which whole buildings are given over to Internet-related data processing. Moreover, in most areas of the country, power use is fairly evenly divided between industrial, commercial and residential users. But according to Silicon Valley Power, fully 90 percent of available electricity in Santa Clara goes to industrial and commercial customers.

This is not only occurring in Silicon Valley; it is happening nationwide. According to the California Energy Commission, computers account for about 4 percent of national power consumption. If you take into account computer related equipment such as peripherals and air conditioning needed to keep servers cool, the figure has been pegged at about 13 percent of power consumption.

Just as our demand for greater volumes of power is becoming more urgent, so is the need for heightened power quality. What was once deemed necessary and sufficient to ensure continued reliability in the so-called Old Economy is being rethought in the New "digital"Economy. Increasingly, the leading companies in the new economy are recognizing the value of an uninterrupted power supply. With increasing reliance on e-commerce just to maintain routine operations, some sites now require 100 percent reliability with redundancy. They just can't afford a 'hick-up" on the grid because of the recoupment and lost business opportunity costs. Consequently, these businesses can well afford to pay a premium for this greater power quality.

The distributed technologies being researched and developed at the Department of Energy can provide a key for meeting this type of demand. Our distributed generation strategies, which include fuel cells, micro-sized advanced gas turbines and combined heat and power generation will be a viable option for many in the future because of costs and capital outlays associated with more traditional forms of generation, along with transmission and distribution.

In my office, our Fuel Cell Program is being driven, in part, by the emergence of distributed generation approaches and the deregulation of the electric power industry. These fuel cells offer the following advantages: greater siting flexibility, a highly efficient, reliable and environmentally benign source of electricity, the capability to use "opportunity fuels," such as gas produced in landfills, and, of course, the avoidance of transmission and distribution hurdles.

Tomorrow, some of you will get a peak at the not-too-distant future. Commissioner Dave Svanda and members of his Finance and Technology Committee will be going to the University of California at Irvine to have a first-hand opportunity to see this technology when they visit a prototype combined fuel cell-microturbine unit developed in collaboration with our department and Siemens Westinghouse.

In addition to the near-term impact of the digital economy, the urgency of the task that lies before us is underscored when one looks at our department's long-term energy outlook for our country. Already we can see major energy growth trends shaping up. Specifically:
<ul type="disc"> This country is going to use more energy in the coming years, especially if it wants to keep the current economic expansion growing. Twenty-eight percent more, to be exact, between 1997 and 2020. The dominant fuels supplying that energy will still be fossil fuels. In fact, fossil fuels-as a percentage of our total energy demand-will grow... from about 85 percent in 1997 to nearly 90 percent in 2020. (This takes into account a large expansion in the use of

renewable energy resources.) In addition, the demand for electricity will grow even faster than overall energy demand...as much as 37 percent between 1997 and 2020. In the electric power generation sector, we project an increase of more than 225 gigawatts in generation capacity between now and 2020, a 31 percent increase. When you add new capacity to replace retired units, the figure grows to more than 363 gigawatts.

Three hundred sixty-three gigawatts is equivalent to 1200 new large-scale plants. Or to put it another way, it is almost equivalent to adding the current grids of Japan and Germany combined to the U.S. power supply in the next 20 years.

This translates into great challenges for an industry that is undergoing a dramatic transformation.

It is these challenges that we are trying to address in the program I oversee at the Department of Energy. And, it is through technology that we believe we can address many of these challenges.

To get there, we need to hasten the day when our markets can act with dispatch and certainty. No one benefits -- and I really mean no one - from an unduly prolonged and protracted restructuring transition period. That's my second "urgency" message: the need for swift regulatory certainty. About half of NARUC's state members already have adopted retail customer choice programs or transitional plans. I congratulate those of you whose agencies and legislatures already have made the leap, and I know that virtually all of the remainder of you are independently examining or conferring with your legislatures regarding how, when or whether to proceed.

Many of you are keenly familiar with the Administration's proposed Comprehensive Electricity Competition Act, and some of the differences that remain between various federal bills and the states. So I'll refrain from giving you a point-by-point recitation. Besides, I understand NARUC's position on matters such as wanting to retain jurisdiction over unbundled retail transmission because I used to argue them against the feds myself. But what is different now since my involvement in NARUC three short years ago is an increasingly unforgiving reliability environment caused by uncertainty. With restructuring unfolding state-by-state and the "start-stop-start" process of comprehensive federal legislation looming over the landscape, power developers and companies are postponing decisions on new power plants and lines. Interstate power and transmission lines are becoming overloaded. All this uncertainty blocks innovation that would revolutionize the way we generate and use electricity.

Last summer, regions across the country went dark during heat waves. In response, the Secretary of Energy appointed a Power Outage Study Team, drawn from the Energy Department, our national labs and academia. Secretary Richardson told these experts to identify what went wrong last summer, what could go wrong this summer, and to recommend ways to avoid problems in the future. They found that what is needed is nothing less than a new reliability framework to catch up with the drastic changes facing the industry.

Even more, their report said something else ?? things may get worse before they get better. And in the wake of the blistering heat we've had already in parts of the country, such as San Francisco, and a forecast for a long, hot summer in much of the nation, that's a wake?up call.

Don't let the perfect become the enemy of the good. Irrespective of whether a comprehensive restructuring bill finally moves ahead in this or -- as some are concluding -- the next Congress, find

a way to be a constructive force, seek to be part of a consensus, and give the market the certainty it urgently requires. When I was active in NARUC, I remember former Vermont Commissioner Rich Cowart once saying: "If the lights go out, customers aren't going to call Adam Smith, they're going to call the PUC's." That axiom resonates today.

Uniformity in Business Rules and Standards

As a federal official, I personally try to tread lightly on state prerogatives. States should have the freedom to craft retail electric competition rules that suit their local needs and markets. In this area, the federal "footprint" should be limited to those subject matters that rise to achieving a national policy objective, such as those items spelled out in the Administration's Comprehensive Electricity Competition Act.

Consequently, except for those identified areas, the federal role should be confined to encouraging states to act in concert where it serves the purpose of promoting rational competitive markets that are regional or potentially national in scope. Not withstanding the backdrop of seemingly daunting obstacles to enact federal electricity legislation, states can assume leadership in promoting more efficient, competitive retail markets without need for direct federal legislation or intervention. One way is through their adoption of common retail business transaction rules and standards that can be made, within reason, as uniform and consistent as possible from state to state.

Why is a degree of uniformity necessary or even desirable? The necessary rules and procedures for electric retail competition are becoming embodied in state regulatory commission rules, individual retail access tariffs, and/or operating agreements and contracts. However, as states have begun introducing restructuring at the retail level, business rules have been varying significantly from state to state. A lack of uniformity, if unchecked, has the potential to be a significant impediment to the profitable market entry and operation of competitive energy service providers on a regional or national basis. The diversity in rules and procedures for providing essentially the same service in different areas may increase the costs to consumers and decrease the profits of such competitive providers.

Absent uniform rules and standards, truly competitive gas and electricity markets could be stunted. Widely diverging business transaction rules from state to state could chill generation development decisions, erode energy grid reliability and lead to a large number of Americans experiencing the hardships of price spikes and the blackouts and brownouts.

Uniform standards, on the other hand, hold the potential of lowering the cost for all market participants, lowering barriers to market entry, and easing the movement of capital, goods and services. Buyers and sellers would then have more choices and better opportunities to recognize the value of a competitive market.

The Department of Energy has previously supported the creation of a standards- setting organization in the natural gas market: I point to The Gas Industry Standards Board (GISB). Since 1992, the Office of Fossil Energy at the Department has been a strong supporter of GISB because it assumed responsibility to develop and promote standards to simplify and streamline business practices that have continued to lead to a seamless marketplace for natural gas. Without GISB, the standards to enhance the reliability of natural gas service and to increase the competitiveness and efficiency of the natural gas markets, would not have occurred.

We recognize again, the time has come for DOE, and my office in particular, to help support the process to develop collective wholesale and retail uniform business transaction rules and standards for the electricity as well as natural gas markets. We hosted two meetings this year concerning the scope of a potential standards-setting organization. I am also pleased to announce that NARUC and DOE are planning a summit on Energy Restructuring Harmonization. My parting message to state regulators: act now to preempt any need for an expansive Federal footprint for retail standards. Try to attain harmony and uniformity, as best you can, on your own.

Opportunity for Small and Disadvantaged Business

Finally, as we restructure energy markets to permit the creation of new market entrants, we should strive to find ways to open opportunities for small and disadvantaged businesses . By way of reference, here are some interesting statistics: in 1969, there were 322,000 businesses owned by African Americans, Hispanics, Native Americans and Asian Pacific Americans. Today, the number of minority- owned businesses has mushroomed to nearly 2 million.

For small and disadvantaged business in the energy sector there has been progress, but there is still a long way to go. As members of state utility commissions, I know that your agencies and your fellow state officials have a keen interest in seeing that the fruits of a more competitive marketplace are realized by all business participants no matter how large, small, or well financed. I recall going through the same policy deliberations in my state when we opened our markets for local telephone service.

Small businesses represent the backbone of this country. They are the fuel that has driven the economic expansion of the past eight years. Moreover, the small businesses of our country have the potential to grow and contribute to our nation. Bill Gates had to start somewhere. The same goes for Bill Packard and Sam Walton.

Four years ago, in response to a request for assistance from a minority-owned natural gas marketer in the Midwest, Secretary Hazel O'Leary directed the Office of Fossil Energy to develop a strategy to help small and disadvantaged businesses more effectively compete in the natural gas marketplace. The DOE Natural Gas Market Access Program for Women and Minority-Owned Businesses, or the DOE WMBE Program as it is more commonly known, has worked with the American Gas Association, the Gas Industry Standards Board, major energy services companies like Sempra Energy and financial institutions like Union Bank of California to identify -- and remove -- obstacles preventing WMBE companies from achieving success in the energy industry. We are pleased that the NARUC Board of Directors convened in its 1999 National Conference meeting in San Antonio recommended that the various States support the DOE WMBE Program.

During today's committee meetings, the Department of Energy is pleased to be co-sponsoring a workshop with Commissioner Ed Holmes and the NARUC Gas Committee on how to foster opportunities for small and disadvantaged business in energy markets. We invite your active and eager participation in learning how best to extend flourishing energy market opportunities to this important and growing business sector.

Conclusion

Again, thanks to all of you - my former colleagues - for having me here and allowing me the floor today. Having participated in these meetings many, many times, I'm obviously well aware of the importance of your work not only to your individual states but also to our country. To the regulated

companies and interested stakeholders, enjoy Beverly Hills, Hollywood, Disneyland, and Los Angeles. To the regulators . . . you guys are going to be way too busy for any of that stuff. Thank you very much.